

## RBI

### 1) BASIC INFORMATION:

The Reserve Bank of India is India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935 during the British Rule in accordance with the provisions of the Reserve Bank of India Act, 1934.

The RBI plays an important part in the Development Strategy of the Government of India. It is a member bank of the Asian Clearing Union.

The general superintendence and direction of the RBI is entrusted with the 21-member Central Board of Directors:

The Governor (Dr. Raghuram Rajan),

4 Deputy Governors,

2 Finance Ministry representatives,

10 government-nominated directors to represent important elements from India's economy,

And 4 directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. Each of these local boards consists of 5 members who represent regional interests, and the interests of co-operative and indigenous banks.

### 2) Points to remember:

- a) It was established in April 1935.
- b) It was nationalized in 1949.
- c) The first governor of RBI was Sir Osborne Smith.
- d) The first Indian governor of RBI was Shri CD deshmukh.
- e) RBI can issue note up to 10000.
- f) The head quarter of RBI is in MUMBAI.

g) RBI can have maximum 4 deputy governor.

h) Main functions of the RBI-

MONETARY AUTHORITY OF INDIA

ISSUE OF CURRENCY

BANKER AND DEBT MANAGER TO THE GOVERNMENT

BANKER'S BANK

REGULATOR OF BANKING SYSTEM

MANAGER OF FOREIGN EXCHANGE

REGULATOR AND SUPERVISOR of the payment and settlement system

DEVELOPMENTAL ROLE

i) RBI was setup on the basis of the recommendation of HILTON YOUNG COMMISSION.

j) Number of regional offices of RBI is 28.

k) The bank has two training colleges for its officers:

Reserve Bank Staff College Chennai and College of Agricultural Banking at Pune.

### 3) Current governors

The Governor - Raghuram Rajan.

4 Deputy Governors- H R Khan, Dr Urjit Patel, R Gandhi and S S MUNDRA.

### 4) Current RBI rates

**RBI had recently announced new rates on 29.09.2015.**

Here are the Current Bank Rates:

1. Bank Rate - 7.75 %
2. Cash Reserve Ratio (CRR) - 4 %
3. Statutory Liquidity Ratio (SLR) - 21.5 %
4. Repo Rate (RR) - 6.75 %

- 5. Reverse Repo Rate (RRR) - 5.75 %
- 6. Marginal Standing Facility (MSF) - 7.75 %

### TERMS RELATED TO RBI

#### 1) Repo Rate

Repo rate is the rate at which banks borrow money from the central bank (RBI for India) for a short period by selling their securities (financial assets) to the central bank with an agreement to repurchase it at a future date at predetermined price. It is similar to borrowing money from a money-lender by selling him something, and later buying it back at a pre-fixed price.

#### 2) Bank Rate

Unlike Repo Rate, there is no sale of security in Bank Rate. Bank rate is the rate at which banks borrow money from the central bank without any sale of securities. It is generally for a longer period of time. This is similar to borrowing money from someone and paying interest on that amount.

Note- Both these rates are determined by the central bank of the country based on the demand and supply of money in the economy.

#### 3) Reverse Repo Rate

Reverse Repo rate is the rate of interest at which the central bank (RBI) borrows funds from other banks for a short duration. The banks deposit their short term excess funds with the central bank and earn interest on it.

Note- Reverse Repo Rate is used by the central bank to absorb liquidity from the economy. When it feels that there is too much money floating in the market, it increases the reverse repo rate, which means that banks earn higher rate of interest when they deposit money with the central bank.

Reverse Repo rate was an independent rate till 03/05/2011. However, in the monetary policy announced on 03/05/2011, RBI decided to link it to Repo rate. So,

Reverse Repo Rate is now always 100 bps below the Repo rate (till RBI decides to delink the same).

#### 4) CRR (Cash Reserve Ratio)

Have you ever wondered what happens to the amount that you deposit in bank?

It is used by banks to earn money by investing or lending it to others (house loans, personal loans etc.). But as per the regulations, banks cannot use the entire amount deposited with them for this purpose. They are required to maintain a percentage of their deposits as cash. So, if you deposit Rs. 100/- in your bank, then bank can't use the entire Rs. 100/- for lending or investment purpose. They have to maintain a portion of the deposit as cash and can use only the remaining amount for lending/investment. This minimum percentage, which is determined by the central bank, is known as Cash Reserve Ratio.

Note- if CRR is 6% then it means for every Rs. 100/- deposited in the bank, it has to maintain a minimum of Rs. 6/- as cash. However, banks do not keep this cash with them, but are required to deposit it with the central bank, so that it can help them with cash at the time of need.

#### 5) SLR (Statutory Liquidity Ratio)

Apart from keeping a portion of deposits with the RBI as cash, banks are also required to maintain a minimum percentage of deposits with them at the end of every business day, in the form of gold, cash, government bonds or other approved securities. This minimum percentage is called Statutory Liquidity Ratio.

Note- If you deposit Rs. 100/- in a bank, and assuming CRR to be 6% and SLR to be 8%, the bank can use  $100 - 6 - 8 =$  Rs. 86/- for giving loan or for investment purpose.

**ALL THE BEST by UR GK BUDDY (SURYANSH)**